

COVINGTON COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2011

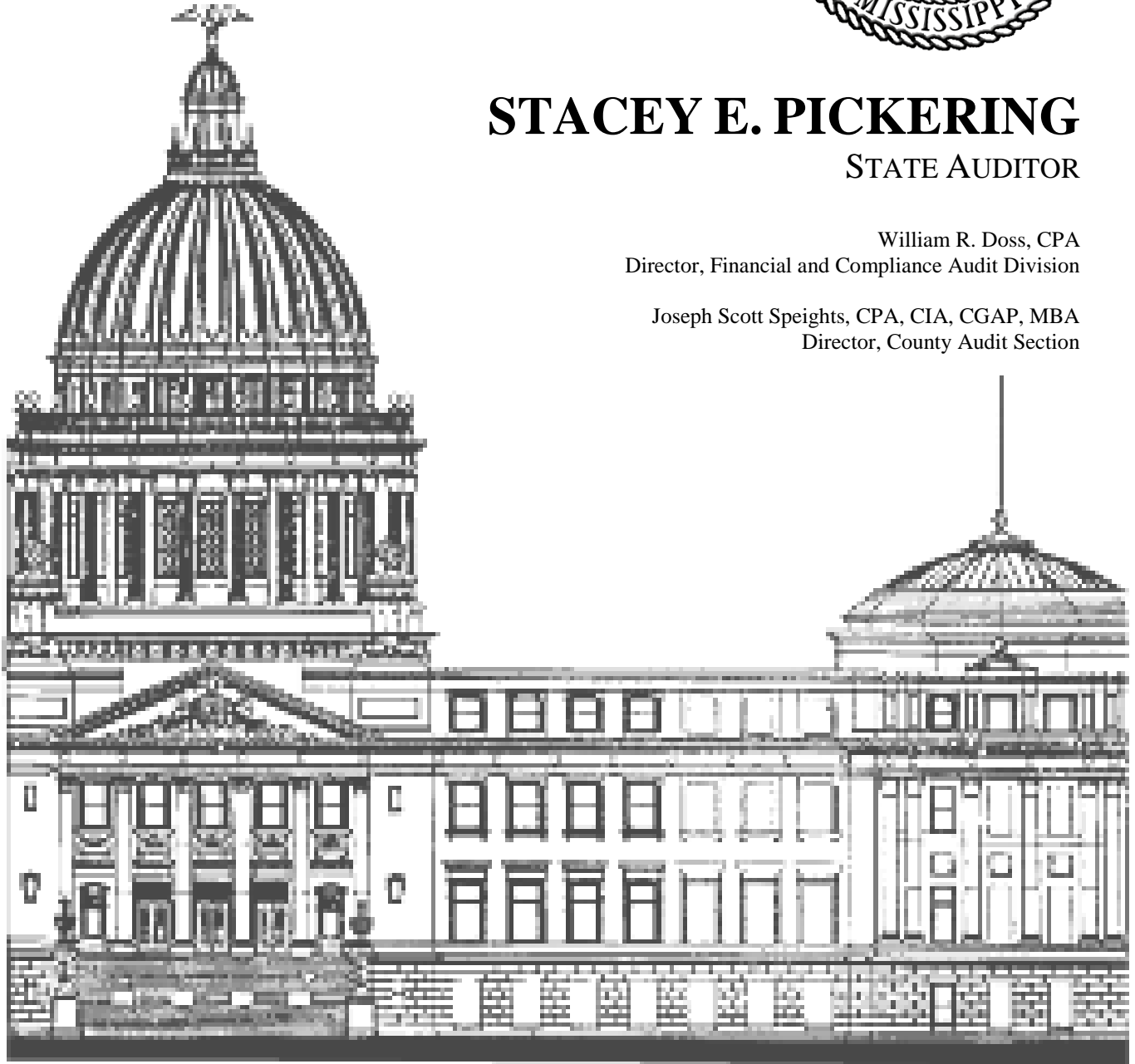


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA
Director, County Audit Section



A Report from the County Audit Section

www.osa.state.ms.us



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

January 23, 2013

Members of the Board of Supervisors
Covington County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2011 financial and compliance audit report for Covington County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Covington County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Covington County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Stacey E. Pickering
State Auditor

COVINGTON COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION	1
INDEPENDENT AUDITOR’S REPORT	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	21
Statement of Net Assets	23
Statement of Activities	24
Balance Sheet – Governmental Funds	25
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	27
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	28
Statement of Fiduciary Assets and Liabilities	29
Notes to Financial Statements	31
REQUIRED SUPPLEMENTARY INFORMATION	43
Budgetary Comparison Schedule – (Budget and Actual (Non-GAAP Basis) - General Fund	44
Notes to the Required Supplementary Information	45
SUPPLEMENTAL INFORMATION	47
Reconciliation of Operating Costs of Solid Waste	48
SPECIAL REPORTS.....	49
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51
Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)).....	53
Limited Internal Control and Compliance Review Management Report	59
SCHEDULE OF FINDINGS AND RESPONSES	63

COVINGTON COUNTY

FINANCIAL SECTION

COVINGTON COUNTY

(This page left blank intentionally.)



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Covington County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the county's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable of the Justice Court or the aging of these fines receivable. Due to the nature of the county's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported on the Statement of Net Assets and in the General Fund at \$89,021, as of September 30, 2011. Also, because of the nature of the fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the General Fund.

In our opinion, because of the omission of the discretely presented component units, as discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Covington County, Mississippi, as of September 30, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of the matter discussed in the fourth paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the General Fund of Covington County, Mississippi, as of September 30, 2011, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.


In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the county adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of October 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013, on our consideration of Covington County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Covington County, Mississippi's basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Reconciliation of Operating Costs of Solid Waste is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

January 23, 2013

COVINGTON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY

(This page left blank intentionally.)

COVINGTON COUNTY, MISSISSIPPI

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The discussion and analysis of Covington County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2011. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is an element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Accounting principles generally accepted in the United States of America do not require comparative data in the financial statements but certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis and is provided herein.

Covington County is located on U. S. Highway 84 and U. S. Highway 49. The population, according to the 2010 census, is 19,568. The poultry industry, timber industry, other agriculture activities, public storage facilities and a thriving medical community drive the local economic base.

FINANCIAL HIGHLIGHTS

Covington County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Covington County continues to grow both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. The County government tax rate has increased by only 1.5 mills over the last six years. This does not include the school taxes.

Total net assets decreased \$538,757, which represents a 1% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was an increase of \$21,533, which represents a .2% increase from the prior fiscal year. The County's ending cash balance decreased by \$499,754, which represents a 3.2% decrease from the prior fiscal year.

COVINGTON COUNTY, MISSISSIPPI

The County had \$9,290,395 in total revenues. Property tax revenues account for \$6,019,603 or 65% of total revenues. Operating grants, capital grants and contributions account for \$1,060,405 or 11% of total revenues.

The County had \$9,829,152 in total expenses, which represents a decrease of \$619,621 or a 6% decrease from the prior fiscal year. Expenses in the amount of \$1,730,100 were offset by grants, outside contributions, or charges for services. The remainder of expenses was offset by general revenues of \$7,560,295 and accumulated cash balances.

Among major funds, the General Fund had \$5,313,617 in revenues and other financing sources and \$5,399,203 in expenditures and other financing uses. The General Fund's fund balance increased \$58,487 over the prior year, which included a prior period adjustment of \$144,073.

Capital assets, net of accumulated depreciation, decreased by \$520,924.

Long-term debt had a net increase of \$39,366. This included an addition of \$162,356 in capital leases for the purchase of two New Holland tractors with boom mowers for Districts 4 and 5. The difference was payments made on capital leases and other loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

COVINGTON COUNTY, MISSISSIPPI

Figure 1 – Required Components of the County's Annual Report

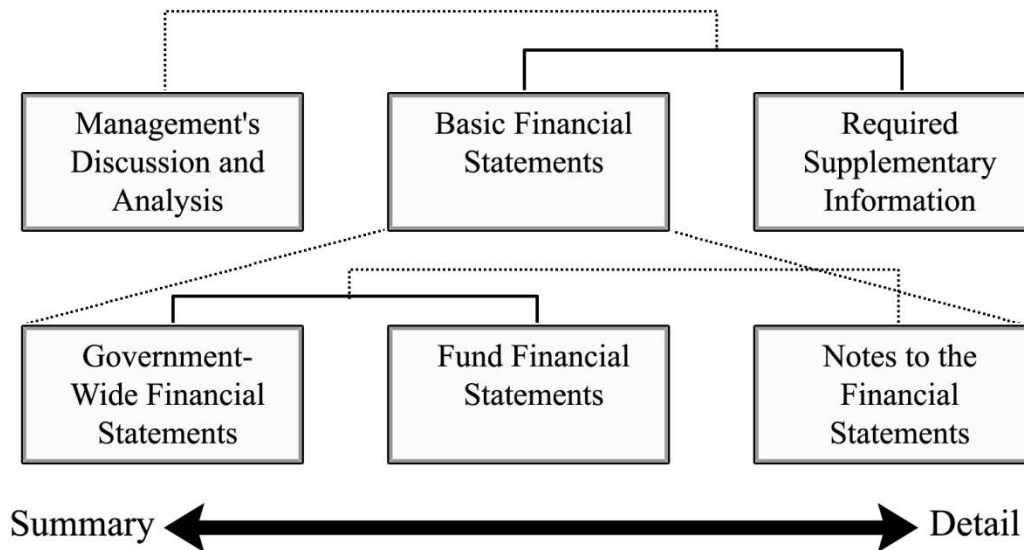


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of a County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

COVINGTON COUNTY, MISSISSIPPI

Figure 2 – Major Features of a County’s Government-Wide and Fund Financial Statements

	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County government (except fiduciary funds) and component units	All activities of the County that are not business-type or fiduciary in nature	Activities of the County that operate similar to private businesses	The County is the trustee or agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short and long term	All assets and liabilities, both short and long term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

COVINGTON COUNTY, MISSISSIPPI

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

The **statement of net assets** presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; conservation of natural resources; economic development; and interest on long-term debt. Covington County does not have any business-type activities.

Component units are not included in our basic financial statements. They consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The component units that are not included are as follows:

- Southeast Covington Fire District
- Southwest Covington Fire District
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System

COVINGTON COUNTY, MISSISSIPPI

The Government-wide Financial Statements can be found on pages 23 and 24 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 26 and 28 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 25 and 27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 29 of this report.

COVINGTON COUNTY, MISSISSIPPI

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 31 through 42 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information can be found on page 44 of this report.

Covington County, MS was not subject to a single audit for the year ended September 30, 2011.

GOVERNMENT-WIDE FINANCIAL

Net Assets – Net assets may serve over time as a useful indicator of government's financial position. In the case of Covington County, assets exceeded liabilities by \$59,148,479 as of September 30, 2011.

By far, the largest portion of the County's net assets (76%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, and leased property under capital lease) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

The County's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

COVINGTON COUNTY, MISSISSIPPI

The following table presents a summary of the County's net assets for the fiscal year ended September 30, 2011, as compared to fiscal year ended September 30, 2010.

	09/30/11 Governmental Activities	09/30/10 Governmental Activities
Assets:		
Current Assets	\$ 20,672,038	\$ 20,308,169
Capital Assets, Net	45,422,149	45,943,073
Total Assets	<u>\$ 66,094,187</u>	<u>\$ 66,251,242</u>
Liabilities:		
Current Liabilities	\$ 6,597,039	\$ 6,254,703
Long-Term Debt Outstanding	348,669	309,303
Total Liabilities	<u>\$ 6,945,708</u>	<u>\$ 6,564,006</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 45,073,480	\$ 45,633,770
Restricted	2,616,026	2,652,024
Unrestricted	11,458,973	11,401,442
Total Net Assets	<u><u>\$ 59,148,479</u></u>	<u><u>\$ 59,687,236</u></u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The Board of Supervisors used accumulated cash balances to avoid tax increases.
- \$122,990 of long-term debt principal was retired.
- There was \$162,356 of long-term debt issued during the year ending September 30, 2011 to purchase two New Holland tractors with boom mowers.
- Capital assets had additions of \$579,228 from additions in mobile equipment, furniture and equipment, and leased property under capital leases.

COVINGTON COUNTY, MISSISSIPPI

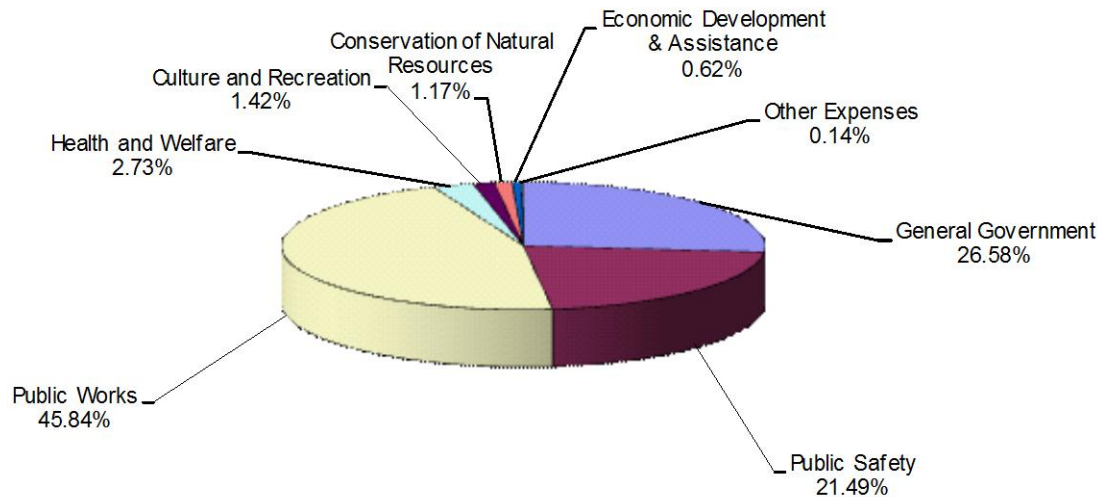
Changes in Net Assets—Covington County’s total revenues for the fiscal year ended September 30, 2011 were \$9,290,395. The total cost for all services provided was \$9,829,152. The decrease in net assets was \$538,757. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2011, as compared to fiscal year ended September 30, 2010.

	<u>09/30/11</u>	<u>09/30/10</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 669,695	\$ 668,424
Grants and Contributions	1,060,405	1,879,302
General Revenues:		
Taxes	6,019,603	5,725,841
Road and Bridge privilege taxes	252,675	255,285
Grants and Contributions	920,372	781,788
Other	367,645	432,030
Total Revenues	<u>\$ 9,290,395</u>	<u>\$ 9,742,670</u>
Expenses:		
General Government	\$ 2,612,403	\$ 2,655,757
Public Safety	2,112,374	2,456,434
Public Works	4,505,848	4,767,372
Health and Welfare	268,823	247,162
Culture and Recreation	139,731	136,439
Conservation of Natural Resources	115,333	115,314
Economic Development & Assistance	60,625	59,675
Interest Expenses	14,015	10,620
Total Expenses	<u>\$ 9,829,152</u>	<u>\$ 10,448,773</u>
Increase (Decrease) in Net Assets	<u>\$ (538,757)</u>	<u>\$ (706,103)</u>

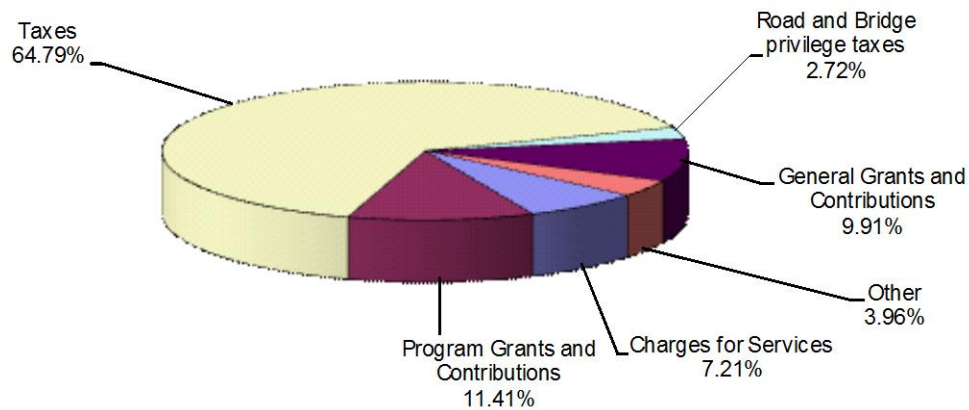
COVINGTON COUNTY, MISSISSIPPI

The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2011.

HOW COUNTY REVENUES ARE USED



WHERE THE COUNTY GETS IT REVENUE



COVINGTON COUNTY, MISSISSIPPI

Governmental Activities – The following table presents the cost of major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, Conservation of Natural Resources, Economic Development and Assistance, and Interest on Long-term Debt.

	Total Costs	Net Costs
General Government	\$ 2,612,403	\$ 2,225,051
Public Safety	2,112,374	1,650,213
Public Works	4,505,848	3,647,197
Health and Welfare	268,823	249,387
Culture and Recreation	139,731	139,731
Conservation of Natural Resources	115,333	115,333
Economic Development and Assistance	60,625	58,125
Interest on Long-Term Debt	14,015	14,015

The table also shows each function's net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Covington County's taxpayers by each of these functions.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental funds – At the close of the fiscal year, Covington County's governmental funds reported a combined fund balance of \$13,985,978, an increase of \$22,488. The increase is .2% of the total fund balance.

The General Fund is the principal operating fund of the County. The increase in the fund balance of the General Fund for the fiscal year, including a prior period adjustment of \$144,073, is \$58,487. This increase is due to an increase in revenues and a prior period adjustment.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

Over the course of the year, Covington County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made to correct the estimated beginning cash balances made in the original budget to actual beginning cash balances on October 1.
- Budgeted revenues were increased as better estimates became available.

COVINGTON COUNTY, MISSISSIPPI

- The largest decrease in amendments in the General Fund budget was to the general government department and the largest increase was to public safety. Budgeted expenditures were increased (decreased) as better estimates became available.
- With these adjustments actual disbursements were below final budget amounts by \$100,091 for the General Fund.

A schedule showing the original and final budget amounts compared to the County's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2011, Covington County's total gross capital assets were \$136,529,374. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$178,617.

Total accumulated depreciation as of September 30, 2011 was \$91,107,225, including \$927,584 of depreciation expense for the year. The balance in total net capital assets was \$45,422,149 at year-end.

See the schedules below for additional information on Covington County's capital assets:

Capital Asset Values

Asset Classification	Balance 10/1/2010	Additions	Deletions	Adjustments	Balance 9/30/2011
Land	\$ 271,551	\$ -	\$ -	\$ -	\$ 271,551
Infrastructure	120,223,034		48,878		120,174,156
Buildings	5,301,474				5,301,474
Mobile Equipment	8,116,662	292,132	338,783	370,839	8,440,850
Furniture and Equipment	1,970,983	124,740	12,950	(85,869)	1,996,904
Leased Property under Capital Leases	467,053	162,356		(284,970)	344,439
TOTALS	\$ 136,350,757	\$ 579,228	\$ 400,611	\$ -	\$ 136,529,374

COVINGTON COUNTY, MISSISSIPPI

Capital Asset Accumulated Depreciation

Asset Classification	Balance 10/1/2010	Additions	Deletions	Adjustments	Balance 9/30/2011
Infrastructure	\$ 82,062,837	\$ 153,133	\$ -	\$ -	\$ 82,215,970
Buildings	1,630,263	81,762			1,712,025
Mobile Equipment	4,846,946	570,738	216,388	196,266	5,397,562
Furniture and Equipment	1,723,000	90,951	11,655	(68,016)	1,734,280
Leased Property under Capital Leases	144,638	31,000		(128,250)	47,388
	<u>\$ 90,407,684</u>	<u>\$ 927,584</u>	<u>\$ 228,043</u>	<u>\$ -</u>	<u>\$ 91,107,225</u>

Debt Administration – At September 30, 2011, Covington County had \$348,669 in long-term debt outstanding. The only debt outstanding as of September 30, 2011 is capital leases and other loans. Of this debt, \$58,910 was due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. As of September 30, 2011, Covington County had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2011:

	Balance 10/1/2010	Additions	Reductions	Balance 9/30/2011	Due Within One Year
Capital Leases	253,808	162,356	108,852	307,312	44,284
Other Loans	55,495		14,138	41,357	14,626
Total	<u>\$ 309,303</u>	<u>\$ 162,356</u>	<u>\$ 122,990</u>	<u>\$ 348,669</u>	<u>\$ 58,910</u>

Additional information on Covington County's long-term debt can be found in Note 10 on pages 39 through 40 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

For the year 2011-2012, Covington County, MS is discussing the option to purchase land for development and also is looking into the option to lease purchase a new jail. They will continue with the usual capital purchases such as police cars, road equipment, and other capital items.

The budget for the next fiscal year reflected a decrease of \$1,564,529 or 14% in revenues and a decrease of \$629,464 or 5% in expenses. This is expected to decrease the County's net assets.

Covington County has an unemployment rate of 10.0% versus 9.7% a year ago. This compares favorably with the state average rate of 11.6%.

COVINGTON COUNTY, MISSISSIPPI

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Covington County Comptroller's/Chancery Clerk's office at 101 South Elm, Collins, Mississippi 39428.

CONVINGTON COUNTY

FINANCIAL STATEMENTS

CONVINGTON COUNTY

(This page left blank intentionally.)

COVINGTON COUNTY
Statement of Net Assets
September 30, 2011

Exhibit 1

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash	\$ 14,426,059
Property tax receivable	6,033,000
Fines receivable (net of allowance for uncollectibles of \$546,230)	89,021
Intergovernmental receivables	117,072
Other receivables	6,886
Capital assets:	
Land	271,551
Other capital assets, net	45,150,598
Total Assets	<u>66,094,187</u>
LIABILITIES	
Claims payable	393,206
Intergovernmental payables	139,046
Deferred revenue	6,033,000
Other payables	31,787
Long-term liabilities	
Due within one year:	
Capital debt	58,910
Due in more than one year:	
Capital debt	289,759
Total Liabilities	<u>6,945,708</u>
NET ASSETS	
Invested in capital assets, net of related debt	45,073,480
Restricted:	
General government	53,363
Public safety	1,152,067
Public works	1,390,880
Culture and recreation	3,006
Economic development	159
Unemployment compensation	16,551
Unrestricted	11,458,973
Total Net Assets	<u>\$ 59,148,479</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY
Statement of Activities
For the Year Ended September 30, 2011

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 2,612,403	372,051	15,301		(2,225,051)
Public safety	2,112,374	246,865	142,417	72,879	(1,650,213)
Public works	4,505,848	50,779	584,172	223,700	(3,647,197)
Health and welfare	268,823		19,436		(249,387)
Culture and recreation	139,731				(139,731)
Conservation of natural resources	115,333				(115,333)
Economic development and assistance	60,625		2,500		(58,125)
Interest on long-term debt	14,015				(14,015)
Total Governmental Activities	\$ 9,829,152	669,695	763,826	296,579	(8,099,052)
General revenues:					
Property taxes				\$ 6,019,603	
Road & bridge privilege taxes				252,675	
Grants and contributions not restricted to specific programs				920,372	
Unrestricted interest income				121,425	
Miscellaneous				246,220	
Total General Revenues				7,560,295	
Changes in Net Assets					(538,757)
Net Assets - Beginning					59,687,236
Net Assets - Ending				\$ 59,148,479	

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY
Balance Sheet - Governmental Funds
September 30, 2011

Exhibit 3

	Major Fund		
	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 11,635,229	2,790,830	14,426,059
Property tax receivable	3,369,000	2,664,000	6,033,000
Fines receivable (net of allowance for uncollectibles of \$546,230)	89,021		89,021
Intergovernmental receivables	105,045	12,027	117,072
Other receivables	5,872	1,014	6,886
Due from other funds		89,681	89,681
Total Assets	\$ 15,204,167	5,557,552	20,761,719
LIABILITIES AND FUND BALANCES			
Liabilities:			
Claims payable	\$ 115,680	277,526	393,206
Intergovernmental payables	133,253		133,253
Due to other funds	95,474		95,474
Deferred revenue	3,458,021	2,664,000	6,122,021
Other payables	31,787		31,787
Total Liabilities	3,834,215	2,941,526	6,775,741
Fund balances:			
Restricted for:			
General government		53,363	53,363
Public safety		1,152,067	1,152,067
Public works		1,390,880	1,390,880
Culture and recreation		3,006	3,006
Economic development and assistance		159	159
Unemployment compensation		16,551	16,551
Assigned to:			
General government	5,667		5,667
Public safety	8,316		8,316
Culture and recreation	215,834		215,834
Unassigned	11,140,135		11,140,135
Total Fund Balances	11,369,952	2,616,026	13,985,978
Total Liabilities and Fund Balances	\$ 15,204,167	5,557,552	20,761,719

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2011

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 13,985,978
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$91,107,225.	45,422,149
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	89,021
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(348,669)</u>
Total Net Assets - Governmental Activities	\$ <u><u>59,148,479</u></u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY

Exhibit 4Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2011

	Major Fund	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
REVENUES			
Property taxes	\$ 3,408,114	2,611,489	6,019,603
Road and bridge privilege taxes		252,675	252,675
Licenses, commissions and other revenue	168,632	14,904	183,536
Fines and forfeitures	247,819		247,819
Intergovernmental revenues	1,070,843	909,934	1,980,777
Charges for services	2,415	236,880	239,295
Interest income	105,787	15,638	121,425
Miscellaneous revenues	56,899	189,321	246,220
Total Revenues	5,060,509	4,230,841	9,291,350
EXPENDITURES			
Current:			
General government	2,523,238	170,299	2,693,537
Public safety	1,553,413	478,667	2,032,080
Public works	24,882	4,031,327	4,056,209
Health and welfare	233,257		233,257
Culture and recreation	30,988	105,775	136,763
Conservation of natural resources	109,573		109,573
Economic development and assistance	38,402	2,500	40,902
Debt service:			
Principal		122,990	122,990
Interest		14,015	14,015
Total Expenditures	4,513,753	4,925,573	9,439,326
Excess of Revenues over (under) Expenditures	546,756	(694,732)	(147,976)
OTHER FINANCING SOURCES (USES)			
Long-term capital debt issued		162,356	162,356
Proceeds from sale of capital assets	8,108		8,108
Transfers in	245,000	885,450	1,130,450
Transfers out	(885,450)	(245,000)	(1,130,450)
Total Other Financing Sources and Uses	(632,342)	802,806	170,464
Net Changes in Fund Balances	(85,586)	108,074	22,488
Fund Balances - Beginning, as previously reported	11,311,465	2,652,025	13,963,490
Prior period adjustment	144,073	(144,073)	0
Fund Balances - Beginning, as restated	11,455,538	2,507,952	13,963,490
Fund Balances - Ending	\$ 11,369,952	2,616,026	13,985,978

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2011

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 22,488
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation of \$927,584 exceeded capital outlays of \$579,228 in the current period.	(348,356)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$164,460 and the proceeds from the sale of \$ 8,108 in the current period.	(172,568)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(955)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$162,356 exceeded debt repayments of \$122,990	<u>(39,366)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(538,757)</u></u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2011

Exhibit 5

		Agency Funds
ASSETS		
Cash	\$	284,797
Due from other funds		5,793
Total Assets	\$	<u>290,590</u>
LIABILITIES		
Amounts held in custody for others	\$	284,797
Intergovernmental payables		5,793
Total Liabilities	\$	<u>290,590</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY

(This page left blank intentionally.)

COVINGTON CONTY

Notes to Financial Statements For the Year Ended September 30, 2011

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Covington County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Covington County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

Management has chosen to omit from these financial statements the following component units which have significant operational or financial relationships with the county. Accordingly, the financial statements do not include the data of all of the county's component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Southeast Covington Fire District
- Southwest Covington Fire District
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function.

COVINGTON CONTY

Notes to Financial Statements For the Year Ended September 30, 2011

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the county.

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

The Government-wide and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Fund:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

COVINGTON CONTY

Notes to Financial Statements For the Year Ended September 30, 2011

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the county did not invest in any governmental securities during the fiscal year.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and-payables between funds within governmental activities are eliminated in the Statement of Net Assets.

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Covington County elected to report general infrastructure assets acquired after September 30, 1980, on the government-wide financial statements. General infrastructure assets include all road and bridges and other infrastructure assets.

COVINGTON CONTY

Notes to Financial Statements For the Year Ended September 30, 2011

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, Statement of Net Assets.

J. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the county:

COVINGTON CONTY

Notes to Financial Statements For the Year Ended September 30, 2011

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Assigned fund balance includes amounts that are constrained by the county's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Board of Supervisors as established by the board minutes.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the county's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the county's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

L. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

COVINGTON CONTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2011, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned

(3) Prior Period Adjustment.

A summary of the significant fund equity adjustments is as follows:

Exhibit 4 - Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.

Explanation	Amount
To correct error in classification of funds	
General Fund	\$ 144,073
Other Governmental Funds	(144,073)
Total prior period adjustment	\$ 0

(4) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2011, was \$14,710,856, and the bank balance was \$15,796,984. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2011:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Other Governmental Funds	General Fund	\$ 89,681
Agency Funds	General Fund	5,793
Total		\$ 95,474

The receivables represent the tax revenue collected but not settled until October, 2011. All interfund balances are expected to be repaid within one year from the date of the financial statements.

COVINGTON CONTY

Notes to Financial Statements
For the Year Ended September 30, 2011

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 245,000
Other Governmental Funds	General Fund	<u>885,450</u>
Total		<u>\$ 1,130,450</u>

The principal purpose of interfund transfers was to provide funds for grant matches or to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(6) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2011, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	101,013
State and community highway safety	\$ 12,064
Emergency management performance grant	<u>3,995</u>
Total Governmental Activities	<u>\$ 117,072</u>

COVINGTON CONTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2011:

Governmental activities:

	Balance Oct. 1, 2010	Additions	Deletions	Adjustments*	Balance Sept. 30, 2011
Non-depreciable capital assets:					
Land	\$ 271,551				271,551
Total non-depreciable capital assets	271,551	0	0	0	271,551
Depreciable capital assets:					
Infrastructure	120,223,034		48,878		120,174,156
Buildings	5,301,474				5,301,474
Mobile equipment	8,116,662	292,132	338,783	370,839	8,440,850
Furniture and equipment	1,970,983	124,740	12,950	(85,869)	1,996,904
Leased property under capital leases	467,053	162,356		(284,970)	344,439
Total depreciable capital assets	136,079,206	579,228	400,611	0	136,257,823
Less accumulated depreciation for:					
Infrastructure	82,062,837	153,133			82,215,970
Buildings	1,630,263	81,762			1,712,025
Mobile equipment	4,846,946	570,738	216,388	196,266	5,397,562
Furniture and equipment	1,723,000	90,951	11,655	(68,016)	1,734,280
Leased property under capital leases	144,638	31,000		(128,250)	47,388
Total accumulated depreciation	90,407,684	927,584	228,043	0	91,107,225
Total depreciable capital assets, net	45,671,522	(348,356)	172,568	0	45,150,598
Governmental activities capital assets, net	\$ 45,943,073	(348,356)	172,568	0	45,422,149

*Adjustments are to reclassify paid off leased property under capital leases and to reclassify furniture and equipment to mobile equipment.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 31,916
Public safety	197,918
Public works	633,733
Health and welfare	35,566
Culture and recreation	2,968
Conservation of natural resources	5,760
Economic development and assistance	19,723
Total governmental activities depreciation expense	\$ 927,584

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission.

COVINGTON CONTY

Notes to Financial Statements
For the Year Ended September 30, 2011

Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2011, to January 1, 2012. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(9) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2011:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 344,439
Less: Accumulated depreciation	<u>47,388</u>
Leased Property Under Capital Leases	<u>\$ 297,051</u>

The following is a schedule by years of the total payments due as of September 30, 2011:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 44,284	9,223
2013	45,719	7,788
2014	47,188	6,319
2015	158,493	3,882
2016	<u>11,628</u>	<u>76</u>
Total	<u>\$ 307,312</u>	<u>27,288</u>

(10) Long-term Debt.

Debt outstanding as of September 30, 2011, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Rate Interest</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. Capital Leases:			
District 5 Volvo G930 motor grader	\$ 165,176	3.28%	06-2015
District 4 New Holland tractor with boom	71,068	3.12%	01-2016
District 5 New Holland tractor with boom	<u>71,068</u>	3.12%	01-2016
Total Capital Leases	<u>\$ 307,312</u>		
B. Other Loans:			
District 5 420E backhoe	<u>\$ 41,357</u>	3.37%	06-2014

COVINGTON CONTY

Notes to Financial Statements
For the Year Ended September 30, 2011

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

Year Ending September 30	Other Loans	
	Principal	Interest
2012	\$ 14,626	1,192
2013	15,137	681
2014	<u>11,594</u>	<u>268</u>
Total	<u>\$ 41,357</u>	<u>2,141</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2011, the county had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2011:

	Balance Oct. 1, 2010	Additions	Reductions	Adjustments	Balance Sept. 30, 2011	Amount due within one year
Governmental Activities:						
Capital leases	\$ 253,808	162,356	108,852		307,312	44,284
Other loans	<u>55,495</u>		<u>14,138</u>		<u>41,357</u>	<u>14,626</u>
Total	<u>\$ 309,303</u>	<u>162,356</u>	<u>122,990</u>	<u>0</u>	<u>348,669</u>	<u>58,910</u>

(11) Contingencies.

Federal Grants - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

Hospital Revenue Bond Contingencies - The county issues revenue bonds to provide funds for constructing and improving capital facilities of the Covington County Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2011, is \$6,590,000.

COVINGTON CONTY

Notes to Financial Statements For the Year Ended September 30, 2011

(12) Joint Ventures.

The county participates in the following joint ventures:

Covington County participated with the Counties of Greene, Perry and Stone in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), in operating the Pine Forest Regional Library. The joint venture was created to provide free library service to the citizens of the respective counties, and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$60,000 in fiscal year 2011. During the fiscal year 2011, Covington County ceased its participation with the Pine Forest Regional Library. Complete financial statements for the Pine Forest Regional Library can be obtained from P.O. Box 1208, Richton, MS 39476.

Covington County is a participant with the Counties of Jones and Perry, and the Cities of Hattiesburg, Laurel and Petal in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Pine Belt Regional Solid Waste Authority. The joint venture was created to dispose of solid waste in members of the authority. The Covington County Board of Supervisors appoints one of twelve members of the board of directors. The authority is funded by user fees based on the volume of solid waste. Complete financial statements for the Pine Belt Regional Solid Waste Authority can be obtained from P.O. Box 1898, Hattiesburg, MS 39403.

(13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Covington County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$20,000 for support of the district in fiscal year 2011.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Covington County Board of Supervisors appoints one of the nine members of the board of commissioners. The county appropriated \$35,500 for support of the entity in fiscal year 2011.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Covington County Board of Supervisors appoints two of the 20 members of the college board of trustees. The county appropriated \$396,124 for maintenance and support of the college in fiscal year 2011.

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Covington County Board of Supervisors appoints one of the 24 members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants. The county appropriated \$10,000 for support of the district in fiscal year 2011.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

COVINGTON CONTY

Notes to Financial Statements For the Year Ended September 30, 2011

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Covington County Board of Supervisors appoints one of the nine members of the board of directors. The county appropriated \$72,500 for support of the district in fiscal year 2011.

(14) Defined Benefit Pension Plan.

Plan Description. Covington County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2011, PERS members were required to contribute 9% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2011 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2011, 2010 and 2009 were \$338,227, \$330,387 and \$316,820, respectively, equal to the required contributions for each year.

COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,155,200	3,403,156	3,403,156	
Licenses, commissions and other revenue	190,000	165,126	165,126	
Fines and forfeitures	270,000	242,591	248,038	5,447
Intergovernmental revenues	856,900	990,911	997,331	6,420
Charges for services	1,250	429	429	
Interest income	168,580	101,635	101,635	
Miscellaneous revenues	229,800	147,006	141,163	(5,843)
Total Revenues	<u>4,871,730</u>	<u>5,050,854</u>	<u>5,056,878</u>	<u>6,024</u>
EXPENDITURES				
Current:				
General government	2,920,500	2,484,750	2,426,566	58,184
Public safety	1,385,810	1,546,667	1,515,119	31,548
Public works	25,000	137,000	132,765	4,235
Health and welfare	260,600	215,500	215,251	249
Culture and recreation	19,200	31,216	29,305	1,911
Conservation of natural resources	112,497	114,497	111,131	3,366
Economic development and assistance	80,000	39,000	38,402	598
Total Expenditures	<u>4,803,607</u>	<u>4,568,630</u>	<u>4,468,539</u>	<u>100,091</u>
Excess of Revenues over (under) Expenditures	<u>68,123</u>	<u>482,224</u>	<u>588,339</u>	<u>106,115</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources	42,000	374,010	874,934	500,924
Other financing uses	(2,047,100)	(1,166,000)	(1,510,450)	(344,450)
Total Other Financing Sources and Uses	<u>(2,005,100)</u>	<u>(791,990)</u>	<u>(635,516)</u>	<u>156,474</u>
Net Change in Fund Balance	(1,936,977)	(309,766)	(47,177)	262,589
Fund Balances - Beginning	<u>10,325,106</u>	<u>11,486,027</u>	<u>11,487,129</u>	<u>1,102</u>
Fund Balances - Ending	<u>\$ 8,388,129</u>	<u>11,176,261</u>	<u>11,439,952</u>	<u>263,691</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

COVINGTON COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2011

A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund:

		Governmental Fund Type
		General Fund
Budget (Cash Basis)	\$	(47,177)
Increase (Decrease)		
Net adjustments for revenue accruals		3,631
Net adjustments for expenditure accruals		(42,040)
GAAP Basis	\$	<u>(85,586)</u>

COVINGTON COUNTY

(This page left blank intentionally.)

COVINGTON COUNTY

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2011

Operating Expenditures, Cash Basis:

Salaries	\$	271,581
Expendable Commodities:		
Gasoline and petroleum products		48,783
Repair parts		4,307
Maintenance		9,206
Contractual Services		151,505
Supplies		<u>1,114</u>

Solid Waste Cash Basis Operating Expenditures		486,496
---	--	---------

Full Cost Expenses:

Indirect administrative costs		3,947
Depreciation on equipment		<u>45,049</u>

Solid Waste Full Cost Operating Expenses	\$	<u><u>535,492</u></u>
--	----	-----------------------

COVINGTON COUNTY

SPECIAL REPORTS

COVINGTON COUNTY

(This page left blank intentionally.)



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors
Covington County, Mississippi

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the county's basic financial statements and have issued our report thereon dated January 23, 2013. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. Additionally, our report includes a qualified opinion on the General Fund because the county did not maintain adequate subsidiary records documenting the existence and valuation of the Justice Court fines receivable, net. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the county is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Covington County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 11-1, 11-5 and 11-6 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 11-2, 11-3, 11-4 and 11-7 to be significant deficiencies.

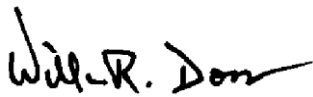
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covington County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of Covington County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated January 23, 2013, included within this document.

Covington County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Covington County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will R. Doss" with a stylized flourish at the end.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

January 23, 2013



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors
Covington County, Mississippi

We have examined Covington County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2011. The Board of Supervisors of Covington County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Covington County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk.

1. Inventory Control Clerk should maintain an inventory control system.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory control system. Adequate controls over capital assets require that certain data elements be captured in capital asset records for all capital assets. Required data elements include description of assets, cost, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital assets records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. Our test results indicated the following deficiencies in the capital assets records:

- a) A 2011 Dodge Charger purchased on August 5, 2011 for \$27,386 was not added to the capital asset records.
- b) Five (5) assets, which were disposed of during the fiscal year, were not approved in the minutes of the Board of Supervisors.

An adjustment for the cost and related depreciation of the unrecorded asset was proposed to management and made to the financial statements with management's approval. The failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement procedures to properly maintain accurate inventory records documenting the existence, completeness and valuation of capital assets.

Inventory Control Clerk's Response

Procedures will be implemented.

2. Inventory reports should be filed with the Board of Supervisors and State Auditor's Office.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires inventory reports to be filed with the Board of Supervisors, in triplicate with copies forwarded to the Office of the State Auditor no later than October 15th of each fiscal year. The required inventory reports were not prepared by the Inventory Control Clerk. Failure to prepare the annual reports increases the possibility of the loss or misappropriation of public funds and could result in the reporting of inaccurate amounts.

Recommendation

The Inventory Control Clerk should prepare the inventory reports, as required by law.

Inventory Control Clerk's Response


Steps will be made to insure the prepared reports reach the Auditor's Office no later than October 15th each year.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2011.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Covington County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended for use in evaluating the central purchasing system and inventory control system of Covington County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will. R. Dooss". The signature is written in a cursive, slightly slanted style.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

January 23, 2013

COVINGTON COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2011

Date	Item Purchased	Bid Accepted	Vendor	Lowest Bid	Reason for Accepting Other Than the Lowest Bid
1/7/2011	Hot mix	\$59.00/ ton	W.E. Blain & Sons	\$53.90/ ton	W.E. Blain and Sons is located in Covington County, MS and Warren Paving is located in South Hattiesburg, MS in Forrest County. The amount of gas that would be spent to deliver from the further location makes the bid from Warren Paving much higher than that of W.E. Blain and Sons.

COVINGTON COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2011

Schedule 2

Our test results did not identify any emergency purchases.

COVINGTON COUNTY

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2011

Schedule 3

Our test results did not identify any purchases made noncompetitively from a sole source.



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Covington County, Mississippi

In planning and performing our audit of the financial statements of Covington County, Mississippi for the year ended September 30, 2011, we considered Covington County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Covington County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated January 23, 2013, on the financial statements of Covington County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. Approval of interfund transfers should be documented in the board minutes.

Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record be maintained for all proceedings of the Board of Supervisors. Interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

All interfund transfers will be done with a board order and spread on the minutes. The interfund transfers were part of the claims docket and were signed off by all supervisors.

2. Covington County Should Install Network Banners on Its Internal Network.

Finding

During our review of Covington County, we noted that the system did not display appropriate network banners on its internal network. Network banners are electronic messages that provide notice of legal rights to users of computer networks. Bannering assists in the prosecution of computer related incidents by helping prevent certain defenses made by the perpetrator.

Recommendation

We recommend that Covington County implement appropriate network banners on its internal network.

Board of Supervisors' Response

Covington County agrees with the findings of the Control Deficiencies and will implement procedures to correct these deficiencies.

3. Covington County Should Expire All Individual's Passwords on a Periodic Basis.

Finding

A discussion of Covington County's security settings revealed user's passwords were set to never expire. Generally non-expiring passwords should be reserved only for system tasks which could require continuous service. Otherwise, all passwords should be set to expire in accordance with policy to be determined by Covington County. Expiring passwords on a periodic basis is an industry best practice.

Recommendation

We recommend that all passwords for individual user-ids be set to expire immediately and a policy be implemented to insure passwords are expired on a regular basis.

Board of Supervisors' Response

Covington County agrees with the findings of the Control Deficiencies and will implement procedures to correct these deficiencies.

4. Covington County Should Strengthen Its Password Policy to Force More Complex Passwords.

Finding

Covington County presently does not force the users to create strong or complex passwords to its computer system. Password strength is a measure of the effectiveness of a password in resisting guessing and brute-force attacks. The strength of a password is a function of length, complexity, and unpredictability. Using strong passwords lowers overall risk of a security breach, but strong passwords do not replace the need for other effective security controls. The current policy in Active Directory allows a minimum of three characters and does not force the use of special characters.

Recommendation


Covington County should configure Active Directory to require a minimum of eight characters and require special characters to be used in the password.

Board of Supervisors' Response

Covington County agrees with the findings of the Control Deficiencies and will implement procedures to correct these deficiencies.

Covington County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will R. Dooss". The signature is written in a cursive, slightly slanted style.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

January 23, 2013

COVINGTON COUNTY

(This page left blank intentionally.)

COVINGTON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

COVINGTON COUNTY

(This page left blank intentionally.)

COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements:

Governmental activities	Unqualified
Aggregate discretely presented component units	Adverse
General Fund	Qualified
Aggregate remaining fund information	Unqualified
2. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes
 - b. Significant deficiencies identified? Yes
3. Noncompliance material to the financial statements noted? No

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

- 11-1. Financial data for county's component units should be included in the county's financial statements.

Finding

Generally accepted accounting principles require the financial data for the county's component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. As reported in the prior four years' audit reports, the financial statements do not include the financial data for the county's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for inclusion in the county's financial statements.

Board of Supervisors' Response

The Board of Supervisors recognizes the failure to include financial data of the county's component units has resulted in an adverse opinion. The cost of providing this data is not feasible, and for some of the units, financial data may not be available to the board.

COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2011

Significant Deficiency

11-2. Covington County should establish a disaster recovery process.

Finding

During our review of the IS controls of Covington County, we noted the County has not established a disaster recovery process. As a result, Covington County cannot fully ensure the county's information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions. *Control Objectives for Information and Related Technology* (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster. Failure to maintain an adequate recovery plan could impede the county's ability to regain computer operations in the event of a disaster.

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and securely storing them at an off-site location. Such actions maintain the organization's ability to restore data files, which may be impossible to re-create.

Recommendation

We recommend Covington County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster.

Board of Supervisors' Response

Covington County agrees with the significant deficiency finding. We will be working with Delta Computer Systems and Premise, Inc. to implement the recommended plan, policies and procedures.

Significant Deficiency

11-3. Covington County should implement a program of IT governance.

Finding

IT governance is the leadership and organization structures and processes that ensure an organization's IT investments sustain and extend business strategies and objectives. IT governance decision-making frameworks and processes help define how all IT investment decisions will be made, where accountability lies for those decisions and the ongoing management of IT investments and technology standards.

Policies, procedures and standards define IT organizational behavior and uses of technology. They are a part of the written record that defines how the IT organization performs services that support the organization. Policy documents should be developed and ratified by IT management. IT policies typically cover topics such as security processes, risk management, roles and responsibilities, development practices, operational practices, incident management, project management and vulnerability management.

COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2011

Recommendation

We recommend that Covington County establish governance through an IT steering committee that will be responsible for setting long-term IT strategy and ensure that IT processes will effectively meet the County's business needs. Additionally, we recommend Covington County implement a program of IT governance that will address change management, quality management, security management, performance optimization and establish an effective organizational structure and clear statements of roles and responsibilities.

Board of Supervisors' Response

Covington County agrees with the significant deficiency finding. We will be working with Delta Computer Systems and Premise, Inc. to implement the recommended plan, policies and procedures.

Significant Deficiency

Covington County should implement a formal information security policy.

11-4. Finding

Covington County has not adopted a formal Information Security Policy or Enterprise Security Plan. This finding also relates to finding 11-3 in this report, as a strong security stance is a function of a strong IT Governance process.

The lack of a formal Information Security Policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and Internet protocol.

Recommendation

Practices outlined in the *Mississippi State Enterprise Security Policy* are typical of appropriate standards for any moderate sized IT organization. While full compliance with all facets of the policy may be an economic challenge for Covington County, beginning steps to become compliant with a policy similar to the *Mississippi Enterprise Security Policy* are necessary. We recommend that Covington County create a plan on compliance with industry standards to ensure progress towards a robust documented information security plan.

Board of Supervisors' Response

Covington County agrees with the significant deficiency finding. We will be working with Delta Computer Systems and Premise, Inc. to implement the recommended plan, policies and procedures.

COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2011

Justice Court Clerk.

Material Weakness

11-5. The Justice Court Clerk should maintain the cash journal and supporting documentation.

Finding

An effective system of internal control for collecting, recording and disbursing cash in the Justice Court Clerk's office should include maintaining the cash journal and supporting documentation. As reported in the prior four years' audit reports, the following deficiencies were noted:

- a. Bank statements were not reconciled on a timely basis.
- b. The subsidiary ledger was not maintained and did not tie to the outstanding bond balance.
- c. The distribution of cash form was not accurate.
- d. A cash count performed June 6, 2012, revealed a net cash shortage of \$623.86 in the civil, criminal and clearing accounts.

Without adequate accounting records, inaccurate information may be reported resulting in an increased possibility of loss or misappropriation of public funds.

Recommendation

The Justice Court Clerk should maintain the cash journal and supporting documentation to ensure public funds are not misappropriated. The bank statement should be reconciled to the cash journal on a monthly basis. The cash shortage should be researched and identified.

Justice Court Clerk's Response

- a. A new bank reconciliation program has allowed more accurate and less time consuming reconciliations of the bank statements.
- b. Researching to correct the inconsistency with the outstanding bond balance.
- c. A reminder on my computer's calendar will prevent this in the future.
- d. Researching the amount adjusted at 10/1/2012 to identify the cause for the shortage.

Justice Court Clerk.

Material Weakness

11-6. The Justice Court Clerk should ensure effective controls over fines receivable

Finding

An effective system of internal control over fines receivable records should include maintaining adequate subsidiary records to substantiate the total fines receivable balance. Based upon audit procedures performed, management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable for Justice Court fines and the aging of fines receivable. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Justice Court fines receivable.

COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2011

Recommendation

The Justice Court Clerk should establish procedures documenting the existence and valuation of Justice Court fines receivable, including the aging schedules of fines receivable.

Justice Court Clerk's Response

The 168 page aging report is currently being evaluated to correct any discrepancies in the fines receivable. Some of the case files in question were defendants that received "Time Served" on their fines, work program completions that had not been cleared and many of them, so old, that my investigation into these will require searching files that have been stored.

Inventory Control Clerk.

Significant Deficiency

- 11-7. The Inventory Control Clerk should maintain an inventory control system.

Finding

An effective system of internal control over capital assets should include that certain data elements be captured in capital asset records for all capital assets. Required data elements include description of assets, cost, locations, acquisition dates, disposition dates, methods of disposition and other relevant information. The presence of these data elements in capital assets records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. Our test results indicated the following deficiencies in the capital assets records:

- a) A 2011 Dodge Charger purchased on August 5, 2011 for \$27,386 was not added to the capital assets records.
- b) Five (5) assets, which were disposed of during the fiscal year, were not approved in the minutes of the Board of Supervisors.

An adjustment for the cost and related depreciation of the unrecorded asset was proposed to management and made to the financial statements with management's approval. The failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement procedures to properly maintain accurate inventory records documenting the existence, completeness, and valuation of capital assets.

Inventory Control Clerk's Response

Procedures will be implemented.

COVINGTON COUNTY

(This page left blank intentionally.)